

TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: Actuarial Contract Award

ITEM NUMBER: 7

ATTACHMENT(S): 1

ACTION: X

MEETING DATE: December 5, 2002

INFORMATION:

PRESENTER: Rick Reed

SUMMARY

CalSTRS secures the services of a Consulting Actuary to undertake actuarial valuation studies and otherwise assist the System Actuary in determining the fiscal status of CalSTRS benefit programs. The current contract is with Milliman USA. This contract is based on a competitive bid process that took place in 1997. Generally, a new search occurs every four years. However, the current contract with Milliman USA was extended an additional year to avoid potentially changing the Consulting Actuary just as the new corporate database was coming online. Staff was concerned that if errors in the data occurred in the conversion from the old database to the new database, those errors would not be as readily detectible by an actuarial firm that was not as familiar with the data as the existing firm.

Requests for Proposals were obtained by at least 14 firms. Two firms, Milliman USA and Gabriel, Roeder, Smith and Company, submitted qualified bids.

Staff based its selection for a Consulting Actuary for CalSTRS on four main criteria:

1. The technical qualifications of the firm
2. The professional staff of the actuarial firm who will interact directly with CalSTRS staff
3. The quality assurance process the firm undertakes to guarantee the accuracy of the information it provides
4. The new products and ideas the firm has to improve the service it provides to its clients

Technical Qualifications

- The firm must have been an actuarial firm for at least five years. The firm must have conducted within the last five years at least six actuarial valuations and two experience analyses for retirement systems with a population in excess of 50,000 members or with at least \$1 billion in assets.
- The Supervising Actuary must be a member of the Society of Actuaries and the American Academy of Actuaries. The Supervising Actuary must be an Enrolled Actuary. The Supervising Actuary must have been the Supervising Actuary for public retirement systems with a population in excess of 50,000 or with at least \$1 billion dollars in assets.

- The Support Actuary must be a member of the Society of Actuaries and the American Academy of Actuaries. The Support Actuary must be an Enrolled Actuary. The Support Actuary must have been the Supervising or Support Actuary for public retirement systems with a population in excess of 50,000 or with at least \$1 billion dollars in assets.
- The Valuation Actuary must have passed key exams of the Society of Actuaries and have at least seven years of experience in the Profession.

Professional Staff

- The CalSTRS staff judged each member of the proposed team based on their experience, technical abilities, and their ability to present difficult and complex topics in a clear and concise manner.

Quality Assurance

- Each firm's procedures for quality assurance were examined. Specifically, the abilities of the Valuation Actuary were examined and the valuation process was explored. The entire team, (Supervising Actuary, Support Actuary, Valuation Actuary, and their staff) was judged on how well they would work as a team and how well they would work with the CalSTRS actuarial staff.

Innovation

- Finally, the firm's innovation in developing new tools to improve service to their clients was judged. Specifically, the firm's current and planned technology, as well as the user friendliness of the technology was evaluated. Staff also evaluated how the technology reduces the chance for errors and speeds the information needed by its clients.

Following a determination that bidding firms were qualified to serve as a Consulting Actuarial firm, and achieved minimum technical scores, key staff of the proposed firms were interviewed by CalSTRS staff.

RECOMMENDATION

Based on its evaluation of each firm's proposal, and interviews with the proposed principal participants in the contract, staff recommends the Board award a contract to Milliman USA as the CalSTRS' Consulting Actuary for the period covering January 1, 2003 through December 31, 2006.

The table below compares the proposed rates for services to those currently being provided:

	Current year	First contract year
Actuarial valuations		
Defined Benefit Program	\$110,000	\$115,000
Defined Benefit Supplement Program	\$5,000	\$5,000
Cash Balance Benefit Program	\$5,000	\$5,000
Experience Analysis		
Defined Benefit Program	\$50,000	\$75,000
Defined Benefit Supplement Program	N/A	\$2,000
Cash Balance Benefit Program	\$6,000	\$5,000
Special Studies		
Supervising Actuary	\$340	\$350
Support Actuary	\$340	\$350
Valuation Actuary	\$250	\$240

Milliman USA was founded in 1947 and has been a leader in providing services to public retirement systems for over 50 years. Their reputation in the actuarial business is superb. A number of their clients have been with them for more than 25 years. Milliman USA has over 1,700 employees, including over 700 actuaries and consultants and a total of 29 offices in the United States. CalSTRS will be served from their Portland office with the actual valuation work being completed in the Seattle office. These offices provide these same services under the current contract with CalSTRS, and will continue to provide the same staff to CalSTRS.

Mark O. Johnson is the Supervising Actuary and will be the direct contact with the Board. Mark has 30 years of experience and has provided a wide variety of services to public retirement systems. He is the current Supervising Actuary for several major retirement systems including CalSTRS. Over the past ten years, the Board has built a strong working relationship with Mark, and staff looks forward to continuing this relationship.

Karen Steffen is the Support Actuary and will be the main back-up to Mr. Johnson. Karen has over 30 years of experience and is the current Supervising Actuary for several statewide public retirement systems. She has appeared before many boards and legislative bodies and is a frequent speaker at public retirement forums.

Nick Collier is the Valuation Actuary and has 15 years of experience. Nick is known for his excellent technical skills and was chief technical expert in the audit of the Los Angeles County Employees Retirement Association. Mr. Collier is also the Valuation Actuary for several other major public retirement systems.

Conducting an Actuarial Audit of Milliman USA

In being awarded the Consulting Actuary contract, Milliman USA will have been CalSTRS Consulting Actuary since 1990, except for the period from 1977 to 1999 when Watson Wyatt had the contract. It is standard practice in the industry to periodically conduct an actuarial audit of actuarial firms when that firm has been the sole contractor for an extended period of time. In an actuarial audit, the auditing firm performs an independent verification and analysis of the assumptions, procedures and methods used by the firm being audited. This helps the Board determine whether Milliman's procedures yield a reasonable determination of the fiscal status of CalSTRS' benefit programs.

Due to the length of Milliman's engagement, although it was interrupted for a short period of time, staff will be engaging an independent actuarial firm to conduct such an audit of Milliman.

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Actuarial Contract Award

RESOLUTION NO. _____

WHEREAS, Section 22311.5 of the Education Code requires that the Board acquire the services of an actuary, and

WHEREAS, the Board has authorized that every four years (with extension) that a new contract for actuarial services be awarded with a professional consulting actuarial firm, and

WHEREAS, the Request for Proposal, scoring and interview process has been completed, therefore; be it

RESOLVED, that the Teachers' Retirement Board award the contract for the period January 1, 2003 through December 31, 2006 for Actuarial Services to Milliman USA.

Adopted by:
Teachers' Retirement Board

on December 5, 2002

JACK EHNES
Chief Executive Officer